III Year-End Closing-Fiscal Month 13 Processing

This chapter discusses the entries and processes that departments must complete after adjusting entries are posted. The automated year-end close (YEC) process is controlled by the Organization Control (OC) Table. Refer to Volume 2, Chapter IV, Subchapter IV-OC, for a detailed explanation of the OC Table Indicators.

The new year OC Table is used for all FM 13 processes.

YEAR-END COST ALLOCATION OPTIONS

Any FM 13 accrual or adjustment entries that affect expenditures and encumbrances must be cost allocated and fund split. Before running cost allocation/fund split (CA/FS) for FM 13, post all adjusting entries and other expenditure entries to FM 13.

Refer to Exhibit III-1 for a summary of year-end cost allocation indicator options. Although four options are listed, most departments select only OPTION #3 for their FM 13 cost allocation process. Exhibit III-2 shows the various activities and the allocation base used.

EXHIBIT III-1
YEAR-END COST ALLOCATION RUN INDICATOR OPTIONS

To run the year-end cost allocation of accrued expenditures and/or encumbrances, one of the following combinations of run indicators must be set in the **new year** OC Table.

NOTE: Since multiple cost allocation processes may be run in one month, the Last Step Run Indicator must be set to **00** to start the current requested process.

OPTION	SYSTEM ACTION	COST ALLOCATION RUN IND	COST ALLOCATION RUN TYPE	ENCUMB-ALLOC IND
1	Allocate / Fund Split expenditures recorded as FM 13 activity only.	**A, C, Y**	**A**	**N**
2 [1], [2]	Allocate / Fund Split encumbrance year-to-date (including FM 13) balances (records this activity in GL 6151 to keep separate from monthly encumbrance activity in GL 6150).	**A, C, Y**	**A**	**E**
3	Allocate / Fund Split both expenditures and encumbrances at the same time.	**A, C, Y**	**A**	**Y**
4	Allocate Variances (PCA Dist. Type 6)- only for those departments that use standard costed PCA(s). Under the standard Costing Method, encumbrances are never allocated.	**A, C, Y**	**Y**	**N**

Refer to Exhibit III-2 for the descriptions of the allocation base used.

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[1] If your OC Table PCA Method = 2, do not allocate encumbrances more than once.

[2] Once the entry is made to adjust the allocated encumbrances credit from Administration to Distributed Administration, encumbrances cannot be reallocated.

EXHIBIT III-2
EXPENDITURE vs. ENCUMBRANCE ALLOCATION

Activity	Allocation Base Used
Current Year Expenditures	
MONTHS 01-12	
Run Type **S**	Prior month activity.
Run Type **C**	Cumulative from inception through PM activity.
MONTH 13	
Run Type **A** [1]	Cumulative from inception through FM 13.
Current Year Encumbrances	
MONTHS 01-12	
Run Type **S** or **C** [2]	Cumulative from inception through PM activity for both run types.
MONTH 13	
Run Type **A** [1, 2]	Cumulative from inception through FM 13.
Prior Year Expenditures And Encumbrances	
MONTHS 01-13	
Run Type **S** or **C** [1, 2]	Cumulative from inception through PM activity.
Run Type **A** [1, 2]	Cumulative from inception through FM 13.

[1] When FM 13 and all prior years are allocated, PCAs defined as Cost Allocation (CA) Table Distribution Types 1, 2, or 3 (the standard costing methods) are treated as Distribution Type 5, which uses the Object Range Low of 00100 to Object Range High of 19900 (Personal Services) to determine the distribution base.

[2] When distributing encumbrances, the Credit PCA assigned in the CA Table is always ignored, and the credit is recorded to the PCA being allocated.

OPTION #1 -- Cost Allocate/Fund Split Fiscal Month 13 Expenditures Only

To run CA/FS for FM 13 expenditures only, use the new year OC Table to set the following indicators:

RUN COST = **A**, **C** or **Y**
RUN TYPE = **A**
ENCUMB ALLOC = **N** or **Blank**
LAST STEP RUN = **00** (Zero-Zero)

NOTE: FM 13 expenditures should not be allocated more than once.

OPTION #2 -- Cost Allocate/Fund Split Fiscal Month 13 Encumbrances Only

Encumbrances remaining in the Clearing Account after adjusting entries have been made must be cost allocated and fund split to their ultimate funds. The allocation of encumbrances is based on the department's CA Tables, but the credit is always back to the same PCA where the encumbrance was established. (Expenditures can recover in the same or different PCAs.) The fund split of encumbrances is based on the funding percentages contained in the PCA table.

NOTE: Allocated encumbrances at year-end do not post to the Grant Project File. Therefore, these encumbrances are not reflected on the F01, Summary of Project Revenues and Expenditures Report.

To run CA/FS for FM 13 encumbrances only, use the new year OC Table to set the following indicators:

RUN COST = **A**, **C** or **Y**
RUN TYPE = **A**
ENCUMB ALLOC = **E**
LAST STEP RUN = **00** (Zero-Zero)

NOTE: Unlike the cost allocation of expenditures, encumbrances may be allocated as many times as necessary except under the following conditions:

1) If your OC Table PCA Method = 2, do not allocate encumbrances more than once.
2) Once the entry is made to adjust the allocated encumbrances credit from Administration to Distributed Administration, encumbrances cannot be reallocated.

Subsequent allocations reallocate only those items that have changed from the previous allocation.

OPTION #3 -- Cost Allocate/Fund Split Fiscal Month 13 Expenditures and Encumbrances

FM 13 CA/FS of both expenditures and encumbrances can be processed at the same time. Option #3 takes the fewest days to complete and avoids potential OC Table maintenance errors.

To run CA/FS for FM 13 expenditures and encumbrances at the same time, use the new year OC Table to set the following indicators:

RUN COST = **A**, **C** or **Y**
RUN TYPE = **A**
ENCUMB ALLOC = **Y**
LAST STEP RUN = **00** (Zero-Zero)

NOTE: This option should be run only once.

OPTION #4 -- Cost Allocate/Fund Split Year-End Variance

This option is for departments that use standard costing PCAs. Variances created during the year that have not been allocated and those created after FM 13 cost allocation must be allocated in the year-end variance CA/FS process.

To run CA/FS for FM 13 variances, use the new year OC Table to set the following indicators:

RUN COST = **A**, **C** or **Y**
RUN TYPE = **Y**
ENCUMB ALLOC = **N**
LAST STEP RUN = **00** (Zero-Zero)

NOTE: This option can be run only once.

PREPARE PRELIMINARY FM 13 RECONCILIATIONS

After the FM 13 CA/FS process is complete (including the correction of all resulting errors) departments should prepare preliminary FM 13 reconciliations. Request the Prior Year (PY) reports needed to prepare the preliminary FM 13 reconciliations. This includes the HB4, G01, DB1, DB2, D16, B03, B04 and S01 Reports. CALSTARS reconciling items may need to be corrected with additional entries. Any correcting entries affecting GL 9000 must be manually cost allocated and fund split.

At this time, departments should also request a B06 or N10 Report to review all appropriations for over-expenditures or inappropriate costs. Since the manual process of reclassifying the allocated encumbrance credit in Administration will not be performed until later, a Q14 or Q16 Report at a level that shows Administration separate from Distributed Administration may be used to determine the true balance of Administration (Refer to the *Reclassify Allocated Encumbrance Credit in Administration* section later in this chapter).

After reviewing the preliminary FM 13 reconciliations and the B06 Report, departments may find that budgetary expenditures (expenditures plus encumbrances) exceed appropriation, fund and/or cash balances. If this is the case, review the correctness of encumbrances, accruals and expenditures. If adjustments are necessary due to incorrect entries, refer to the subsequent section titled *Correct Encumbrance or Accrual Entries/Allocation* for instructions. For funds where revenue collections must be considered, verify that all receipts earned have been billed and/or accrued and revenues received in advance do not contain receipts for the current accounting period (B04, F01, and G02 Reports).

In most departments, the year-end review of budgetary expenditures is done in conjunction with Budget Office staff. If a scheduled line, appropriation, fund or cash in a fund is over-expended, adjustments must be made prior to statement preparation. It may be necessary to move expenditures/encumbrances, submit a Budget Revision or Deficiency Request, request a loan, or other appropriate action.

NOTE: Under no circumstances should the Accounting Office reverse accruals, expenditures, or encumbrances that are legitimate costs of a program or category.

Making Adjustments after FM 13 Cost Allocation/Fund Split

To make expenditure adjustments after FM 13 CA/FS, FM 13 must be reopened by setting the new year OC Table Prior Year Open indicator to **Y**. Encumbrance adjustments can be entered manually if the new year OC Table Prior Year indicator is a **C** or **Y**. It may also be possible to re-run the automated encumbrance allocation process using the Option 2 indicators.

NOTE: Once manual encumbrance adjustments (TC 312/TC 316) are entered, the automated encumbrance allocation process should **not** be used unless the manual encumbrance adjustments are reversed.

The following describes some adjustments that may be necessary:

Move Expenditures to Another Appropriation

If appropriate, do the following to transfer the over-expended appropriation amount to an under-expended appropriation.

1. Credit over-expended appropriation-Lump Sum

    - ✪ Use TC 315;
    - ✪ Use an department-wide Index Code;
    - ✪ Use an appropriate PCA that looks up the over-expended appropriation and scheduled line in the appropriation;

- ✪ If appropriated by program, use Object Detail **191** for Personal Services, Object Detail **591** for Operating Expenses or Object Detail **691** for Unclassified;
- ✪ If appropriated by category, use Object Detail **191** for Personal Services and/or Object Detail **591** for Operating Expenses; and,
- ✪ Enter the ultimate Appropriation Symbol (AS), Fund Source (FS), Fund, Fund Detail and Method exactly as originally charged. (Must override disbursing AS and Fund.)

2. Debit under-expended appropriation-Lump Sum
    - ✪ Use TC 311;
    - ✪ Enter the same Index Code as a credit;
    - ✪ Use an appropriate PCA that looks up the under-expended appropriation and scheduled line in the appropriation;
    - ✪ Enter the same Object Detail as a credit; and,
    - ✪ Enter the ultimate AS, FS, Fund, Fund Detail and Method selected for transfer. This coding may be contained in or added to PCA table. (Must override disbursing AS and Fund).

Correct Encumbrance or Accrual Entries/Allocations

1. Identify the original incorrect entry and record a reversing or adjusting entry. For example, an erroneous expenditure accrual recorded with a TC 215 would be reversed with a TC 215R. If the PCA(s) used in the correcting entry is an Indirect PCA(s), corrections must be manually cost allocated to identify the specific direct PCA(s) to post to the ultimate funds as described below.
2. If any of the above corrections are posted to the Clearing Account, the effects of these corrections on the ultimate funds/appropriations must also be recorded.
    a. If encumbrances are adjusted in the Clearing Account, reallocate encumbrances (Refer to Exhibit III-1, Option 2); or, manually adjust allocated encumbrances.
        1) For entries reducing encumbrances, enter TC 210 or TC 213 in the Clearing Account. Encumbrances can be reallocated or manually adjusted. To manually adjust, enter a TC 312 in the Clearing Account, using the PCA's disbursing fund and a TC 316 in the appropriation being adjusted, using the PCA's ultimate funding information.
        2) For entries increasing encumbrances, enter TC 211 or TC 212 in the Clearing Account. Encumbrances can be reallocated or manually adjusted. To manually adjust, enter TC 316 in the Clearing Account, using the PCA's disbursing fund and a TC 312, in the appropriation being adjusted using the PCA's ultimate funding information.

b. If expenditures are adjusted in the Clearing Account, TC 311s and TC 315s must be entered to manually perform fund distribution to the ultimate funds.

   1) For entries crediting expenditures, enter TC 311 transactions in the Clearing Account (disbursing funding) and TC 315 transactions for the ultimate fund by coding the PCA's ultimate funding information.

   2) For entries debiting expenditures, enter TC 315 transactions in the Clearing Account (disbursing funding) and TC 311 transactions for the ultimate fund by coding the PCA's ultimate funding information.

Move Encumbrances to New Year

If appropriate, do the following to move encumbrances to the new year:

1. Disencumber encumbrances in FM 13

   Use TC 213 in FM 13 to shift encumbrances to the new fiscal year; and

   If the encumbrances are not direct charged to the appropriation being adjusted (i.e., they are in the Clearing Account), reallocate encumbrances (Refer to Exhibit III-1, Option 2) or manually adjust allocated encumbrances. If allocated encumbrances are manually adjusted, use TC 312 to post to the Clearing Account and TC 316 to post to the appropriation being adjusted using the ultimate funding information.

2. Re-establish encumbrances in the new fiscal year

   Use TC 211 to re-establish the encumbrances in the new year (CM or PM) with the new year Indexes/PCAs and the revised funding.

   An alternative process is to post TC 211 with a zero amount and the TC 212 with the actual amount. TC 211 establishes the document and TC 212 places the encumbrance amount in the adjustments field, since it is not a new encumbrance.

Correct Variances in Indirect Cost Centers Funded by the Clearing Account

1. Analyze CA Table to determine where variance should be charged.

2. Enter TC 311 (Charge):

   -Use Index and PCA determined from the analysis

   -Use Object per CA Table (Charge Object)

   -Charge ultimate AS, FS, Fund, Fund Detail and Method of PCAs being charged (must override disbursing AS and Fund).

3. Enter TC 315 (Credit):

   -Use Index, PCA, Object, AS, FS, Fund, Fund Detail and Method as shown on CA Table for recovery.

RECORD YEAR-END PFA

FM 12 and FM 13 cost allocation occurs after the SCO closes the appropriation accounting records. After FM 13 cost allocation is complete, the GL 6297-Allocation Clearing Account remaining balances is an accrual between the department and SCO year-end appropriation balances. All amounts in GL 6297 must be reported as a "Due To" or "Due From" accrual in the year-end financial statements. Reclassification entries must be posted to move the GL 6297 account balances to GL 3110-Due to Other Funds or GL 1400-Due from Other Funds to properly report the accrual.

Using a FM-**PY** DB1 or DB2 Report, develop a reclassification worksheet (Refer to Exhibit III-3). Make a list of each appropriation and its corresponding GL 6297 balance from the DB1 Report (Ending Balance column/same sign) or DB2 Report (Balances column/opposite sign). Determine the adjusting entries that correspond, as follows:

Clearing Account:

TC 540-Reclass 6297-Establish **Due From** Other Funds
Dr. 1400 Due From Other Funds/Appns
Cr. 6297 Allocation Clearing Account

AND

Program or Fund Receiving Charges:

TC 541-Reclass 6297-Establish **Due To** Other Funds
Dr. 6297 Allocation Clearing Account
Cr. 3110 Due to Other Funds or Appropriations

Once the PFA reclassification entries are made, the balance for GL 6297 on the DB1/DB2 Report should be zero. If the amount is not zero, adjusting entries for GL 6297 are not complete.

The department prepares a PFA transfer request after completing the year-end cost allocation and fund distribution. The PFA transfer request includes expenditures for both FM 12 and FM 13. The Q22 Report (PY) includes both FM 12 and FM 13 expenditures.

These entries are reversed in the new year**.**

NOTE: To have these entries automatically reversed during the Year-end Open (YEO) process, they must be coded according to the Automated Accrual Reversal Process requirements discussed in Chapter II, section *Use of Fiscal Month 13 for Year-end Adjustments.*

EXHIBIT III-3
ADJUSTING ENTRIES FOR AN EXAMPLE YEAR-END PFA

From the DB1 Report Ending Balance Column:

	GENERAL LEDGER 6297			GL IMPACT	
GENERAL FUND	PFA AMOUNT OUTSTANDING		TC	DR	CR
PROG 10	-$125		541	6297	3110
PROG 20	-25		541	6297	3110
PROG 30	-50		541	6297	3110
PROG 40 Administration	-20		541	6297	3110
Distributed Admin	20		540	1400	6297
CLEARING ACCT	245	(debit $200) [1]	540	1400	6297
		(debit $50)	540	1400	6297
		(credit $5)	541	6297	3110
FEDERAL TRUST FUND					
PROG 10	-$20		541	6297	3110
PROG 30	-30		541	6297	3110
SPECIAL FUND					
PROG 10	$5		540 [2]	1400	6297

---

[1] The Clearing Account entry for $200 (TC 540) represents the amount due from the General Fund. The $50 (TC 540) represents the amount due from the Federal Trust Fund and the $5 (TC 541) is the amount "Due To" the Special fund (Refer to footnote 2/).

[2] The PFA amount outstanding in the Special fund represents an abatement on a return of a previously estimated charge (i.e., GL 6297 balance on the DB1 is a debit). In this case, TC 540 is recorded in the Special fund to establish a "Due From" and a TC 541 is recorded in the Clearing Account to establish a "Due To."

RECLASSIFY ENCUMBRANCES REPORTED AS ACCOUNTS PAYABLE

Encumbrances that are ultimately for a Governmental Fund or a General Obligation Bond Fund (classified as Funding Source **B** per the UCM) are not reclassified. Encumbrances that are ultimately for a Non-governmental fund or any Bond fund other than a General Obligation Bond Fund are reclassified.

Refer to Chapter V, Year-end Closing – Prepare Non-Governmental Fund Reports for detailed information about reclassifying encumbrances.

RECLASSIFY ALLOCATED ENCUMBRANCE CREDIT IN ADMINISTRATION

In CALSTARS, the allocation of encumbrances is based on the department's cost allocation tables, but the credit is always back to the same PCA where the encumbrance was established. Administration and Distributed Administration programs use different PCAs. To properly reflect the encumbrance balance, an entry is required to shift the credit balance in Object Detail 912 from the Administration PCA(s) to the Distributed Administration PCA(s). (This adjustment applies only to program appropriations.) To determine the amount of Allocated Encumbrances that must be shifted, request a "Q" (Q16 or Q14, as appropriate) report at the detail level after all encumbrance adjustments are completed and after the final encumbrance allocation process is completed. Make the following entries:

To the Administration PCA(s):

TC 312-Encumbrance Fund Distribution-Charge-Annual
Dr. 6151 Allocated Encumbrances-Annual
Cr. 6156 Allocated Encumbrances-Offset-Annual

Use Index, PCA and Object Detail 912; override Fund, FS, AS and Method.

To the Distributed Administration PCA(s)

TC 316-Encumbrance Fund Distribution-Recovery-Annual
Dr. 6156 Allocated Encumbrances-Offset-Annual
Cr. 6151 Allocated Encumbrances-Annual

Use Index, PCA and Object Detail 912; override Fund, FS, AS and Method.

After these entries have processed, request another B06 Report. This should be the final year-end B06 Report. Adjustment entries for Administration and Distributed Administration are shown in Exhibit III-4.

These entries are **NOT** reversed in the new year.

EXHIBIT III-4

ADJUSTMENT ENTRIES FOR ADMINISTRATION AND DISTRIBUTED ADMINISTRATION

<table>
<tr><th colspan="4">ENCUMBRANCE ALLOCATION IN ADMINISTRATION</th></tr>
<tr><td colspan="2">ADMINISTRATION
Program 40.01
PCA 40001</td><td colspan="2">DISTRIBUTED ADMINISTRATION
Program 40.02
PCA 40002</td></tr>
<tr><td>Q REPORT
(Before encumbrance allocation):
Object
226
243
464
TOTAL</td><td>

Encumbrance
$10
12
13
$35</td><td colspan="2" rowspan="2"></td></tr>
<tr><td>Q REPORT
(After encumbrance allocation):
Object
226
243
464
912
TOTAL</td><td>

Encumbrance
$10
12
13
(35)
$ 0</td></tr>
<tr><td colspan="2">ENTER TC 312:
Index, PCA, Object 912
Override: Fund, FS, AS, Method</td><td colspan="2">ENTER TC 316:
Index, PCA, Object 912
Override: Fund, FS, AS, Method</td></tr>
<tr><td>AFTER TC 312:
Q REPORT:
Object
226
243
464
912
TOTAL</td><td>

Encumbrance
$10
12
13
0
$35</td><td>AFTER TC 316:
Q REPORT:
Object

912
TOTAL</td><td>

Encumbrance

$(35)
$(35)</td></tr>
</table>

ENTER SUBSIDIARIES FOR GL 1390 AND GL 1600

GL 1600-Provision for Deferred Receivables is an offset account to:

GL 1315-Accounts Receivable Dishonored Checks;
GL 1316-Accounts Receivable Cash Shortages;
GL 1319-Accounts Receivable Other;
GL 1340-Accounts Receivable Audit Exceptions; and
GL 1380-Contingent Receivables.

At year-end, departments must report the amount of each GL that is offset by GL 1600. This is done by adding Subsidiaries to GL 1600 to identify the amount of each offsetting account. During the year, GL 1600 is not recorded with Subsidiary information. TC 593 allows departments to add a Subsidiary to GL 1600. The numbering convention for the Subsidiary is ***nnnn*****0000**, where ***nnnn*** is the GL being offset. All Subsidiaries must first be established in the D32 Subsidiary Descriptor Table.

To identify the amount of each account offset by GL 1600, sum the G02 Report, Pre-Closing Trial Balance, amounts for the GLs shown above. If the total equals the amount of GL 1600 on the G02 Report, Pre-Closing Trial Balance, these balances are used to post to the Subsidiaries. If the total of the balances do not equal the GL 1600 amount, further analysis is required to determine the offset amount. Verify the impact of the A-9, A-10 and A-12 adjusting entries. For further analysis, use the G03 Report, Trial Balance by Transaction Code. Post one summary entry for each offsetting general ledger account.

If GL 1390-Allowance for Uncollectible Amounts is used, Subsidiary numbers must be added as described above, using TC 592.

TC 592 and TC 593 are reversed in the new year. Auto-reverse batches are recommended.

NOTE: After the TC 592 and TC 593 are posted, review the G02 Post Closing Trial Balance to ensure that the total of the Debits column equals the total of the Credits column. If these entries are not made, the G02 Report, Post Closing Trial Balance, will display an out of balance message at the bottom of the report.

RECLASSIFY FUND BALANCE CLEARING

During the YEC process, CALSTARS generates entries to close the nominal accounts to a Fund Balance account. The system closes nominal accounts for General Fund and other shared funds (identified in the D22 – Statewide Fund Descriptor Table as a shared fund) into GL 5570-Fund Balance-Clearing. The nominal accounts for non-shared funds (identified in the D22 Table) close into GL 5530-Fund Balance-Unappropriated. The nominal accounts for proprietary non-shared funds close into GL 5540-Retained Earnings.

The impact of these entries is reflected in the G02, Post Closing Trial Balance (Report 8). If amounts appear in more than one fund balance GL or in the wrong fund balance GL, an additional manual entry is needed to correctly reclassify the fund balance to the proper account (e.g., Fund Balance-Clearing Account, Fund Balance-Unappropriated, or the Retained Earnings account).

If Fund Balance-Unappropriated has a credit balance:

TC 595-YEC Close Debit Balance Account GL-Non-Shared Fund
Dr. 5530 Fund Balance-Unappropriated
Cr. (Input the correct Fund Balance account)

If Fund Balance-Unappropriated has a debit balance:

TC 596-YEC Close Credit Balance Account GL-Non-Shared Fund
Dr. (Input the correct Fund Balance account)
Cr. 5530 Fund Balance-Unappropriated

If Retained Earnings has a credit balance:

TC 583-Close Debit Bal Acct GL -Retained Earnings
Dr. 5540 Retained Earnings
Cr. (Input the correct Fund Balance account)

If Retained Earnings has a debit balance:

TC 584-Close Credit Bal Acct GL -Retained Earnings
Dr. (Input the correct Fund Balance account)
Cr. 5540 Retained Earnings

These entries are **NOT** reversed in the new year.

PREPARE FINAL FM 13 SCO-CALSTARS RECONCILIATION

To avoid any inadvertent postings while preparing the final FM 13 reconciliation, FM 13 should be closed by setting the OC Table PY Open Indicator to **T** or **N**.

The additional FM 13 SCO reconciliation checks any reclassification entries entered during FM 13. Reconciling items found during this process that are not SCO reconciling items must be corrected with additional CALSTARS entries. Any entries affecting GL 9000-Expenditures must be manually cost allocated and fund split. The Accrual Worksheet is prepared from these final FM 13 reconciliations.